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SUBJECT: SCENESETTER FOR CODEL PRICE

Sensitive but unclassified. Please handle accordingly.

1. (SBU) Representative Price, we warmly welcome you and your delegation to Egypt. You are scheduled to meet with Egyptian President Hosni Mubarak, Minister of Foreign Affairs Ahmed Aboul Gheit, and Speaker of the People's Assembly Ahmed Fathy Sorour and other parliamentarians. You will also meet with Egyptian civil society leaders over lunch.

#### The Bilateral Relationship

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2. (SBU) Strategic Alliance: We have two vital and strategic national security interests with Egypt - (1) its commitment to peace with Israel and (2) unfettered U.S. military access to the Suez Canal and Egyptian airspace, including ground-based support for USAF operations. A fundamental element in our relations with Mubarak and his military is our \$1.3 billion in annual Foreign Military Finance (FMF)- a commitment born of the Camp David Accords and a priority issue for the GOE. These funds have helped phase out Egypt's Soviet-era weaponry, modernize its inventory with U.S.-purchased equipment, and develop an Egyptian officer corps familiar with Western values and U.S. standards. The Government of Egypt, and President Mubarak particularly, value these benefits but especially value the political symbol of U.S.-Egyptian partnership that this program represents.

3. (SBU) Economic Assistance: US economic assistance to Egypt has been on a 10-year glidepath since 1999, declining \$40 million annually from \$800 million in 1998 to \$455 million in FY 2007, and \$415 million in FY 2008. The administration has not yet decided on the funding levels for 2009 and the post glide-path future of the program. After a 2002 policy review, the U.S. negotiated a financial sector reform MOU, which established mutually agreed benchmarks for cash transfer based on completion of specific financial policy reforms. Based on the success of this program, starting in FY 2008, all new monies will be disbursed through a sectoral cash transfer program based on reform benchmarks in health, education, economic reform and science and technology.

#### Domestic Issues

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4. (SBU) Elections for the Shura Council, the upper, "advisory" house, are scheduled for June 11. Eighty-eight seats of the 264-member Council will be contested. An additional 44 members will be appointed by President Hosni Mubarak. Among opposition groups, only the banned Muslim Brotherhood is preparing to put up "independent" candidates to challenge the NDP majority. But widespread detentions of MB members is hampering their organization. The elections will be supervised by a newly created Supreme Electoral Commission. The Commission was created as a result of recent constitutional amendments approved by national referendum

last March. The referendum was characterized by low voter turnout due to voter apathy and an opposition-led boycott. The amendments are also expected to produce new legislation on counter-terrorism which will replace the current state of emergency and also a new electoral law.

¶5. (SBU) In June 2006, the GOE instituted a "freeze" on the activities of the U.S. political party institutes, IRI and NDI, and also the international elections NGO, IFES, which had all applied for registration and started activities in ¶2005. Since the 2006 freeze, all three organizations, which are funded by USAID, have conducted very limited, low-profile activities. IRI and NDI are carrying out programs for civil society leaders "offshore." Secretary Rice and other senior USG officials have repeatedly urged President Mubarak, Foreign Minister Aboul Gheit and others to allow the institutes to carry out their work in Egypt, but the answer remains "no."

¶6. (SBU) Economically, Egypt's prospects are improving. Unemployment estimates approach 15 percent, and underemployment is much higher. But analysts predict that 2007 growth will equal the 7% achieved in 2006. Since 2004, the reformist Cabinet of Prime Minister Ahmed Nazif has made significant progress in implementing broad economic reform, improving the investment climate and increasing foreign investment. They cut taxes and tariffs, made the budget more transparent, privatized state-owned enterprises, including one of the four major public banks, and streamlined business registration procedures. As a result, foreign investment is expanding rapidly. The reformers are now focused on developing a mortgage market and the real estate sector, and on sales tax reform. Trade and customs reforms have helped maintain and create jobs.

#### Regional Issues

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¶7. (SBU) Hosni Mubarak remains a central figure in regional affairs. Egypt brokered the most recent cease-fire in Gaza, which at this writing appears fragile, but holding. Egypt is working to strengthen Abu Mazen and Fatah, in anticipation of Palestinian elections in 6-12 months. In 2005, Egypt deployed 750 border guard forces to the Rafah border crossing between Egypt and Gaza under an agreement with Israel and is addressing the problematic issue of weapons smuggling via the Sinai. On Iraq, hosting the recent Neighbors Conference in Sharm El Sheikh demonstrated tangible support for the government of Prime Minister Nur Al Maliki. In general, Egypt shares broad Arab concern about Tehran's growing influence in the region. Cairo has dismissed Iranian President Ahmadinejad's recent public offer to strengthen bilateral relations.

¶8. (SBU) Sudan: The GOE opposes international sanctions on Sudan. Instead, they urge us to focus on bringing the Darfur rebels into the Darfur Peace Agreement. Egypt has offered engineering units and two battalions of peacekeepers for the Heavy Support Package of the UN/AU Mission, but the offer has not been accepted by UN/DPKO. They have already provided around 800 troops for UNMIS in South Sudan, around 85 security personnel for AMIS in Darfur. Egypt also maintains a field hospital in Darfur, has provided 15-20 planeloads of humanitarian supplies, and is the home of an estimated 1-2 million Sudanese refugees. As a member of the African Union's Peace and Security Commission, Egypt is deeply engaged in diplomatic efforts and frequently hosts rebel groups for talks. Sudanese President Bashir visited Egypt in April and spent a week on vacation.

¶9. (U) Again, we look forward to ensuring your successful visit to Cairo.  
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